

Message Text

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ACTION EA-09

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FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC PRIORITY 4118

INFO AMEMBASSY BANGKOK

/AMEMBASSY JAKARTA 4042

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

UNCLAS KUALA LUMPUR 4354

E.O. 11652: N/A

TAGS: ENRG, MY

SUBJECT: PETROLEUM: PRIME MINISTER SETS DEADLINE FOR PETROLEUM
COMPANIES AND PETRONAS TO REACH AGREEMENT OR FACE BUY-OUT

1. SUMMARY: FOLLOWING IS TEXT OF PRIME MINISTER'S PREPARED
STATEMENT IN JULY 28 MEETING WITH OIL COMPANIES ENGAGED IN
UPSTREAM ACTIVITIES IN MALAYSIA.

2. QUOTE.. I WOULD LIKE FIRST OF ALL TO THANK YOU FOR COMING ALL
THE WAY FROM YOUR HEADQUARTERS TO ATTEND THIS MEETING. MAY I ALSO
TAKE THIS OPPORTUNITY TO EXPRESS THE APPRECIATION OF MY GOVERNMENT
IN THE INTEREST THAT YOU HAVE SHOWN IN WORKING IN MALAYSIA
WITH MALAYSIANS IN THE EXPLORATION AND DEVELOPMENT OF OUR
PETROLEUM RESOURCES. SOME OF YOU HAVE ALREADY BEEN ENGAGED IN
THESE ACTIVITIES FOR SOME TIME AND YOUR EFFORTS HAVE NO
DOUBT BROUGHT BENEFITS TO YOU AS WELL AS THE NATION. ON THE
BASIS OF EXPLORATION ACTIVITIES UNDERTAKEN IN THE LAST
FEW YEARS, I AM INFORMED THAT NEW OILWELLS HAVE BEEN DISCOVERED
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AND, IN ADDITION, THERE ARE VAST RESOURCES OF NATURAL GAS. THESE

NATURAL RESOURCES OF MALAYSIA PROVIDE NEW AVENUES FOR PRIVATE SECTOR PARTICIPATION AND FOR US TO BUILD YET STRONGER LINKS ON OUR PROVEN RECORD OF PARTNERSHIP SO AS TO DERIVE BENEFITS BOTH TO YOU AS INVESTORS AND TO THE COUNTRY AND PEOPLE OF MALAYSIA, THE HOST COUNTRY.

3. IT IS NOT OFTEN THAT I HAVE THE OPPORTUNITY TO MEET YOU AND IT IS IN YOUR INTEREST AS WELL AS MINE THAT I SHOULD BE VERY FRANK WITH YOU THIS AFTERNOON. THE BASIC PURPOSE OF THIS MEETING IS FOR ME AS PRIME MINISTER AND MINISTER CHARGED WITH THE RESPONSIBILITY OF PETROLEUM MATTERS, TO MAKE KNOWN TO YOU MAY GOVERNMENT'S SERIOUS CONCERN IN THE FAILURE OF THE PRODUCING OIL COMPANIES TO REACH AGREEMENT WITH PETRONAS ON PRODUCTION SHARING ARRANGEMENTS ON MUTUALLY ACCEPTABLE TERMS.

4. BEFORE THE PETROLEUM DEVELOPMENT ACT WAS PASSED ON THE 1ST OF OCTOBER, 1974, PETROLEUM EXPLORATION AND EXPLOITATION WERE GOVERNED BY THREE SEPARATE PIECES OF LEGISLATION ON WHICH BASIS THE GOVERNMENT ENTERED INTO PETROLEUM CONCESSION AGREEMENTS WITH SEVERAL OIL COMPANIES, SOME OF WHOM ARE HERE AT THIS MEETING. IN LINE WITH THE NATIONAL ASPIRATION FOR AN EFFECTIVE CONTROL BY THE NATION OF THIS NON-RENEWABLE RESOURCE, THE GOVERNMENT ENACTED THE PETROLEUM DEVELOPMENT ACT, 1974. THE OBJECTIVES OF THE ACT ARE TWOFOLD. IN THE FIRST PLACE, THE ACT PROVIDED FOR THE ESTABLISHMENT OF THE NATIONAL PETROLEUM CORPORATION, PETRONAS, FOR THE PURPOSE OF IMPLEMENTATION OF THE NATIONAL POLICY ON PETROLEUM. SECONDLY, THE ACT WOULD PROVIDE THE NECESSARY LEGAL FRAMEWORK TO CONVERT THE EXISTING CONCESSION AGREEMENTS TO THOSE OF PRODUCTION SHARING.

5. IT WAS CONTEMPLATED THAT FOR THIS PURPOSE, A TIME PERIOD OF SIX MONTHS FROM THE DATE OF THE COMING INTO FORCE OF THE ACT WOULD BE SUFFICIENT. BY APRIL, 1975, AT THE END OF THE SIX MONTH PERIOD, NO AGREEMENT HAD BEEN REACHED. I AM INFORMED THAT PETRONAS HAS ALREADY MADE AVAILABLE TO THE PRODUCING COMPANIES ITS DRAFT PROPOSAL FOR PRODUCTION SHARING AGREEMENTS AND SINCE JANUARY THIS YEAR, THERE HAVE BEEN REGULAR AND INTENSIVE NEGOTIATIONS. EVEN SO NO AGREEMENT IS IN SIGHT, AND WITH THE PRESENT WIDE DIVERGENCE IN THE POSITION OF OIL COMPANIES AT PRESENT NEGOTIATING WITH PETRONAS, IT DOES NOT APPEAR THAT AN UNCLASSIFIED

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EARLY AND SATISFACTORY CONCLUSION CAN BE REACHED.

6. I AM AWARE OF THE RISK FACTOR, THE HEAVY CAPITAL OUTLAY IN EXPLORATION, DEVELOPMENT AND PRODUCTION, AND THE CONSIDERABLE GESTATION PERIOD REQUIRED FOR THE INVESTMENT TO PAY OFF. NEGOTIATIONS CAN, THEREFORE, BE EXPECTED TO TAKE SOME TIME, BUT EVEN SO WELL OVER A YEAR HAS PASSED SINCE THE TIME PERIOD OF SIX MONTHS HAD LAPSED. IN GOOD FAITH, THE GOVERNMENT

HAS MADE IT POSSIBLE UNDER INTERIM ARRANGEMENTS FOR OIL COMPANIES ALREADY IN PRODUCTIONMO CONTINUE OPERATIONS AS WELL EXPLORATIONS AND FOR NEGOTIATIONS TO BE ONDUCTED. IN VIEW OF THE PRESENT IMPASSES AND THE SERIOUS CONCERN OF THE GOVERNMENT, I HAVE FOUND IT NECESSARY TO CALL FOR THIS MEETING TO INFORM YOU OF THE GOVERNMENT'S INTENTION.

7. THE GOVERNMENT RECOGNIZES THE IMPORTANT ROLE OF THE PRIVATE SECTOR IN THE PETROLEUM INDUSTRY AND, AS SUCH, ENCOURAGES ITS CONTINUED PARTICIPATION, BUT IN THE EXPLOITATION OF NON-RENEWABLE RESOURCES WHICH IS THE CASE WITH PETROLEUM, IT IS THE NATIONAL ASPIRATION THAT THE NATION SHOULD HAVE AN EFFECTIVE CONTROL OF THE INDUSTRY THROUGH STATE PARTICIPATION.

8. IN VIEW OF THIS, IT IS UNNECESSARY FOR ME TO IMPRESS UPON YOU THE IMPLICATION OF THESE PROTRACTED NEGOTIATIONS AND OF THE GOVERNMENT'S RESOLVE AND EARNESTNESS TO BREAK THIS IMPASSE. FOR THIS PURPOSE,THE GOVERNMENT MAY PER-FORCE HAVE NO ALTERNATIVE BUT TO TAKE OVER THE RIGHTS OF THE COMPANIES WITH PAYMENT OF ADEQUATE COMPENSATION. YOU ARE ALREADY AWARE THAT SEVERAL NATIONS TODAY HAVE FOUND IT NECESSARY TO TAKE THIS COURSE OF ACTION. YOU WILL ALSO APPRECIATE THAT THIS IS A SOVEREIGN RIGHT OF THE GOVERNMENT AND THIS RIGHT HAS BEEN REAFFIRMED IN VARIOUS RECENT RESOLUTIONS OF THE UNITED NATIONS GENERAL ASSEMBLY.

9. MY GOVERNMENT, OF COURSE, WOULD NATURALLY LIKE TO SEE AGREEMENT REACHED WITHOUT HAVING TO TAKE OVER THE RIGHTS OF THE COMPANIES. INDEED, AS CAN BE SEEN FROM OUR THIRD MALAYSIA PLAN DOCUMENT AND PAST RECORD OF OUR PERFORMANCE, WE WOULD LIKE TO WORK CLOSELY WITH THE PRIVATE SECTOR AND THIS EQUALLY APPLIES TO THE PETROLEUM INDUSTRY, EXCEPT THAT IN THIS CASE OF A NON-RENEWABLE RESOURCE, THE GOVERNMENT WISHES TO ENSURE THAT UNCLASSIFIED

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THE NATIONAL INTEREST IS GIVEN DUE RECOGNITION AND OUR NATIONAL ASPIRATIONS ARE MET IN THE TERMS OF THE PRODUCTION SHARING AGREEMENTS. END QUOTE. UNDERHILL

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